



August 14, 2003

VIA TELECOPY (979/764-6377) AND HAND DELIVERY

Mayor Ron Silvia
City of College Station
1101 Texas Avenue
College Station, Texas 77842

Re: Development Agreement for a Hotel/Office and Conference Center, in the City of College Station, Texas, dated as of November 1, 2001 between The City of College Station, Texas, as the City, and TAC Realty, Inc., as the Developer, as amended (the "Development Agreement")

Dear Mayor Silvia:

It is with great regret that I am providing you with a copy of the notice that is being delivered to the City Attorney notifying the City of TAC Realty, Inc.'s intent to terminate the Development Agreement and the Operating Agreement for the College Station Hotel and Conference Center project.

As you know, the Development Agreement provides each party with a right to terminate the Development Agreement in the event that the all-in costs for such party's portion of the project (defined in the Development Agreement as the "Construction Budget") exceeds certain agreed-upon thresholds. In the case of the Hotel project, that threshold is \$38,000,000. Based upon the final tabulation of the construction bids for the Hotel project, the total Construction Budget for the Hotel project is approximately \$45,000,000.

In making the decision to enter into the Development Agreement, the parties recognized that the key to the viability of the Hotel/Conference Center project would be to differentiate the project from other convention and lodging facilities in the community and across the State. In this way, the Hotel/Conference Center project would not necessarily divert business from convention/lodging facilities in the community, but would instead attract significant new convention/lodging business to the community. In order to achieve this differentiation, the parties agreed that the Hotel project would need to satisfy two main criteria. First, the Hotel project would need

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to be a resort-style, family-oriented facility, offering amenities that are not found at other lodging facilities in the community and are superior to those offered at other convention-type lodging facilities located around the State, including Austin, Dallas, Houston and San Antonio. Second, it would be necessary (and it is a contractual requirement) for the Hotel project to meet the high standards established for a "Four Diamond" hotel under the American Automobile Association's diamond rating system.

In evaluating the construction bids for the Hotel project, we have considered various means to reduce the Construction Budget to achieve the agreed-upon threshold. However, given the magnitude of the projected cost overrun, we do not believe that it is possible to reduce the Construction Budget by almost \$7,000,000 and still satisfy the two criteria identified above. If we were to implement substantial cost reduction measures for the Hotel project, the ability of the Hotel/Conference Center project to effectively compete with other convention/lodging projects across the State would be severely impaired, which would likely have a dramatic negative impact on the potential profitability of the Hotel/Conference Center project. In this regard, I refer you to the enclosed report of Mr. David Neugerbauer of Project Control, consultant for TAC Realty on the Hotel project. By failing to differentiate the Hotel/Conference Center project, it is unlikely that the project would be able to attract significant new convention/lodging business to the community, but would instead be dependent upon diverting a substantial amount of business from existing convention and lodging facilities in the community.

As you are well aware, it is not the most opportune time to be undertaking a project as ambitious as the Hotel/Conference Center project. The general economic environment has radically changed since the parties first entered into the Development Agreement such that the viability of the Hotel/Conference Center project is now in question. First, the Development Agreement was executed soon after the events of September 11, 2001. One of the industries most severely affected by September 11 has been the convention and lodging industry. People have been more reluctant to travel as a result of safety and security concerns. Consequently, there has been a significant economic decline in the convention and lodging industry over the past two years. At the time the Development Agreement was executed, the parties acknowledged the potential negative impact that September 11 could have on the convention and lodging industry. However, the consequences of September 11 have been even worse than we anticipated.

Second, on top of (and attributable at least in part to) September 11 concerns, the overall state of the U.S. economy has deteriorated significantly since the Development Agreement was executed. As the economic

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conditions have worsened and budgets have become tighter, employers, both public and private, are taking measures to reduce costs. One area that has been the focus of cost cutting measures has been travel. In evaluating the initial feasibility of the Hotel/Conference Center project, convention business from State agencies was considered a primary source of revenues for the project. However, Texas A&M University, as well as other State agencies, have severely restricted travel by employees. With the increased availability and use of teleconferencing, videoconferencing and web meetings, many employers now view travel as unnecessary or a last resort. Even when they do travel, employers are increasingly choosing limited service hotels over full service hotels. In addition, there has been a trend for employers to conduct in-house seminars and training sessions rather than sending employees to seminars or training sessions that have historically been conducted at convention and lodging establishments.

It is too early to tell whether the reaction of travelers and employers to the events of September 11 represents merely a temporary condition. Some analysts have gone so far to suggest that there has been a fundamental shift in the way businesses operate, and that the convention and lodging industry may never return to pre-September 11 performance levels. Given the current uncertainty facing the industry, we believe that it would be imprudent for TAC Realty and the City to proceed with the Hotel/Conference Center project at this time. To do so could result in substantial losses to both parties, and ultimately to the City's taxpayers.

We take this action reluctantly. Like the City, TAC Realty has made a substantial investment in the project. As the Construction Budget figures demonstrate, TAC Realty has already incurred approximately \$2,000,000 in out-of-pocket expenses towards the project. This figure does not include the value of countless man-hours that have been devoted to the project. Nevertheless, we believe that it is preferable to terminate the project and absorb these losses rather than go forward with the project and potentially incur exponentially greater losses.

We appreciate the efforts of the City and its staff in trying to make this project a reality. Both parties have expended significant resources in terms of time and money on this project. It is our hope that the work the parties have undertaken to date can be used as the basis for a future hotel/conference center project.

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We remain committed in our efforts to support our community. Should the circumstances change so that the project becomes economically viable, we would consider reviving the project at that time. In the meantime, we look forward to proceeding with the construction of our new office building, which will generate substantial tax revenues for the City, the County and Bryan Independent School District.


Yours truly,

Donald A. Adam
Chairman and Chief
Executive Officer

Enclosures